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COMPENSATORY AND SOCIAL SAFETY NET PROGRAMS:
FINDINGS FROM TWO STUDIES

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SUMMARY

The surge in economic policy reform programs has sparked substantial interest in assistance programs designed to mitigate the adverse social impacts of economic stabilization and structural adjustment. Interest in such programs derives largely from the underlying assumption that some groups, especially the poor, bear an undue share of adverse impacts from implementation of structural adjustment reforms. Recent donor research, however, has accumulated substantial evidence that the most vulnerable among the poor may be less adversely affected by the adjustment process than previously thought. The poor are likely to suffer more from the postponement of economic policy reforms than from the effects of carrying out the reforms.

Those conclusions form the background for two recent CDIE desk studies that examine World Bank and USAID experience with "compensatory" or "safety net" programs designed within the context of stabilization and structural adjustment efforts. The first study, *Compensatory Social Programs and Structural Adjustment: A Review of Experience* (forthcoming), by David Kingsbury, reviews various aspects of and lessons learned from recent programs in this area, many of which were led by the World Bank. The study focuses on case studies in Bolivia, Chile, Ghana, Mexico, and Senegal. The second study, *Programs for Mitigating Adverse Social Impacts During Adjustment: The USAID Experience* (forthcoming), also by David Kingsbury, examines experience from USAID activities, focusing on case studies in Madagascar, Mali, and Tunisia.

Proponents of compensatory programs justify them on the grounds of equity, growth, and political pragmatism. Such programs can mute critics of economic policy reform, while building broad-based popular consensus. Equity advocates view safety net programs predominantly as vehicles for making publicly provided social services more accessible to the poor, either the chronically poor or those pushed below the poverty line as a result of the adjustment process. They perceive provision of health, basic education, and other public services to the poor in times of austerity as compensatory for budgetary shortfall. They also support targeted subsidy programs for food and other basic commodities to compensate for increased open market prices. Other compensatory programs include emergency public works and job <%4>creation activities for former public sector employees.<%0>

The CDIE studies examine the social and political contributions of assistance programs in relation to the economic reform process, strengths and weaknesses in program design and implementation, and cost-effectiveness. The studies conclude that USAID should use caution and conduct thorough analysis of the proposed compensatory programs before committing USAID to their support. Moreover, USAID must not confuse compensatory programs, which are short-run efforts specifically designed to alleviate temporary adverse effects from structural reforms, with traditional poverty alleviation programs, which are not necessarily components of structural adjustment efforts and usually can achieve results only in the long term.

Many of the compensatory programs examined suffered from poor program design, unclear objectives, and weak implementing institutions, resulting in expensive and poorly administered programs. Many social services and subsidy programs were existing poverty-alleviation projects slapped together under a new label, thus not directly related to the specific adjustment program underway. But the studies also found that under the right conditions, compensatory programs can play an important role, particularly in lending political legitimacy in the eyes of the populace to the structural reforms. For compensatory programs to succeed, they must have clear objectives related to identified target groups, the firm commitment and complete involvement of the host government, proper donor coordination, and an implementing agency with appropriate resources for and experience in running such programs.

BACKGROUND

The worldwide recession of the early 1980s hit developing countries hard, and the poorest among them fared the worst. Faced with severe <%4>economic stagnation and decline, many developing countries agreed to pursue macroeconomic and structural adjustment policies<%0> advocated by the World Bank and the International Monetary Fund. These programs emphasized immediate stabilization through reductions in trade imbalances and budget deficits and economic restructuring through removal of price and other market distortions (e.g., trade barriers). These combined efforts were considered pivotal for the transition from economic decline to sustainable long-run growth. During this period, USAID also became a strong advocate of economic policy reforms.

Initially, not much attention was given to the short-run adverse effects of structural adjustment programs on the poor. But by the mid-1980s, the programs were coming under increasing attack for ignoring the plight of the poor and other groups particularly hurt by the adjustment process. In response, some governments and donors, among them USAID, launched programs to compensate the adversely affected groups and ease the transition to resumed economic growth.

In August 1991, CDIE commissioned a Washington-based study of the social safety net programs, examining literature on 28 World Bank-led projects approved or in design between 1987 and 1991. USAID participated in about one-fourth of these efforts. A second study followed focusing on USAID’s experience as lead or sole donor, examining cost-effectiveness, social and political contributions of the interventions to the adjustment process, and recommendations on future USAID commitments to programs of this type. The majority of the USAID projects were concentrated in Latin America, the Near East, and Africa—the regions with the longest experience in social safety net programs.

ASSISTANCE APPROACH

The terms "social safety net" and "compensatory programs" are sometimes used interchangeably with "poverty alleviation." Yet differentiating between these terms is important for identifying clear program objectives. In many cases, this has not been done. Compensatory programs run parallel to structural adjustment efforts and are designed as short-term, stop-gap measures to help targeted groups temporarily hurt by structural adjustment. Poverty alleviation programs on the other hand are long-term development interventions that may or may not coincide with structural adjustment efforts. The term "social safety net" does not necessarily imply that there have been losers from reforms. Such programs usually refer to efforts designed to help the poor from hitting bottom for any reason. Confusion does occur, however, when safety net programs are established for the poor during adjustment programs. There is often an implicit assumption (not backed up by any analysis) that the poor will be hurt by the adjustment process, so safety nets are needed to protect them.

Compensatory or social safety net programs fall under three broad categories representing a wide array of activities: employment generation and public works, publicly provided social services for the most vulnerable, and improved targeting of subsidies to the most vulnerable.

The studies identify two basic approaches to short-run compensatory programs: the multisector approach and the sector-by-sector approach. The World Bank’s compensatory programs are predominantly multisectoral, multidonor-financed, short-term programs that combine several types of assistance into one operation. With this approach, a package of projects is implemented by several line ministries or by a social investment fund that makes grants to private voluntary organizations and host governments for social projects. In contrast, USAID usually prefers a single-sector approach, although several ministries, private voluntary organizations, and the private sector might jointly implement the program. USAID-supported programs have involved severance pay/retraining, public works, contributions to social action and social investment funds, targeted subsidies, and food aid schemes. Local currency deposits or food assistance financed almost all of USAID’s compensatory programs.

The CDIE studies focused on case studies of World Bank and USAID interventions, which are described in Boxes 1 and 2.

FINDINGS

Program Design

From the wide array of programs labeled compensatory (or a safety net established during an adjustment program), very few could actually be characterized as such. Among the programs studied, job creation and public works programs that targeted former public and quasi-public employees were truly compensatory. That is, the programs were designed to respond to the specific effects of structural adjustment programs underway. The programs in Chile, Bolivia, and Tunisia used a public works approach that reached targeted beneficiaries with some measure of success, <%-3>whereas the program in Ghana was not successful because of organizational inefficiency, funding delays, and poor coordination.<%0>

Other programs, such as social service provision, improved targeting of food subsidies, and feeding programs, could only be characterized as compensatory if they were designed for and actually reached groups hurt by adjustment. They therefore fell into a gray area, depending on whether or not they were short-term efforts tightly targeted to those adversely affected by the adjustment process. Still other programs, such as support to local governments and nongovernmental organizations for institution building or decentralization, were clearly not compensatory and usually produced results only in the long term.

Income Redistribution

With the exception of redeployment and severance pay schemes for former public employees, there were few instances in which analysts and decision-makers had coherently thought out the cause and effect implications of adjustment measures on income distribution and then incorporated the analysis into program design. There are probably several reasons for this. Early compensatory programs were often designed as hurried addenda to adjustment programs. Program designers spent much time lining up donor support, but paid little attention to who might actually be hurt by adjustment and to realistically assessing the capacity of public institutions to implement the programs. A number of these programs, often for understandable reasons, focused primarily on the plight of public servants and other vocal urban groups.

Opportunity Cost

Most of the programs studied were expensive and required highly skilled staff. Although viewed as a success, the Bolivia ESF program was expensive, costing about $180 million between 1986 and 1990. The Ghana PAMSCAD program experienced far less success, but still cost $96.3 million and consumed a great deal of management resources. Could these resources have been better spent given scarce human and capital resources in those countries? Although some of these funds may have been additional donor contributions made specifically for these programs, it is still likely that they diverted resources from other development interventions.

Implementing Institutions

The Bolivian ESF program was a model multisectoral program implemented by a semiautonomous agency. It derived its success from several factors: strong government support coupled with enlightened leadership with a vision, an apolitical approach and commitment to reaching a broad base of the population, quick results that helped lend legitimacy to the structural adjustment process, and an implementing agency with sufficient resources, management experience, and independence to run the program. Bolivia made the effort to establish a separate agency outside the civil service and run by strong, experienced managers.

Multiagency, multisector programs on the other hand had fewer chances of short-term success when kept within existing government agencies. Their efforts often failed because of lack of coordination among implementing organizations made even more difficult by conflicting agendas. The Ghana PAMSCAD Program is a case in point. Its 23 projects and 13 implementing organizations that ran across several sectors produced a web of activities without focus, clear objectives, or effective coordination.

With all types of implementing institutions, financial sustainability is an issue, but with multisector programs the problems become particularly complex. Recurrent costs for multisector programs are of two types: (1) those of national institutions that will continue to implement projects or administer investment funds after donors end their funding and (2) local-level costs to operate the many small projects created at the grassroots.

The first type of recurrent cost does not pose a problem when an institution is created temporarily to implement a short-term program, for example, Bolivia’s ESF. (However, not all temporary institutions are phased out.) With institutions like ESF, the problem is not so much providing for recurrent costs as finding a workable mechanism for transferring responsibilities to line ministries after the program ends.

The second type of recurrent cost, however, is always a relevant concern, particularly in social infrastructure projects that create schools, clinics, and roads. These services can only increase a developing country’s social infrastructure capacity if they are maintained. However, because the programs are still relatively new, not much information is available on how these projects will handle recurrent costs or whether even successful programs such as ESF can maintain their benefits in the long term.

Program Results

Severance Pay, Targeted Credit, and Training Programs

Two African cases show that severance pay for public and parastatal employees can be a relatively effective and efficient safety net and can have a high impact on private sector savings and investment. USAID Africa Bureau's Policy Reform and Poverty Project demonstrates that lump-sum severance payments can be a cost-effective way of stimulating small-scale entrepreneurial activity while serving as a safety net for displaced public workers. This appears to be more likely when public sector employees have had some entrepreneurial experience through moonlighting or already posess potentially remunerable skills (such as agricultural extension workers).

Evidence from the Mali VED program indicates that the severance pay component of the program, supported through local currency generation, ran smoothly. Equally important, a significant share of the funds appear to have been used for private investment. However, program designers had paid little attention to the effect that the departure of certain groups of public employees would have on the social infrastructure of the country. In the case of VED, many teachers took advantage of the severance pay scheme, which may have reduced Mali's already weak educational system. But in general, evaluators considered the severance pay component of the VED program a success.

In contrast, credit programs for retrenched workers were fraught with problems and had less chance for success. Some programs were often little more than outlets for cronyism, with heavily subsidized loans granted for political reasons. Targeted credit programs tended to be poorly run, underutilized, ineffective, and expensive. Moreover, they failed to induce commercial banks to participate because of the prevailing disincentives resulting from unfavorable macroeconomic environments and high risks associated with credit schemes narrowly targeted to beneficiaries with little or no formal entrepreneurial experience.

Skills transfer activities also fell short. They seem to have been poorly designed and failed to meet the needs of participants. Moreover, they were management intensive and costly. Participation was very low in some of the programs, such as in the Senegal and Ghana programs; however, low participation may have been indicative of the poor quality of the training rather than the potential beneficiaries' lack of interest in training.

Targeted Labor-Intensive Public Works

Usually, short-term compensatory programs try to reach the vulnerable very quickly through targeted public works programs. The Tunisia Rural Works Programs combined public works projects for unemployed workers with relief efforts to help farmers hurt by the 1988-1989 drought. More specifically it combined short-term employment generation projects with efforts to develop job skills, with mixed results. Although it was reasonably successful in targeting some of the vulnerable groups (e.g., the elderly and unemployed construction workers), it failed to target women, which detracted from its success, and was unable to concentrate activities in poor regions. For political reasons, the government preferred spreading public works projects uniformly across regions, rather than targeting especially poor areas.

The program also suffered because it attempted to mix in a single program the objectives of short-term safety net concerns (e.g., creating jobs for the recently unemployed) with those of long-term development activities (e.g., providing skills transfer to develop human resources). Finally, large public works projects are expensive and difficult to maintain without donor funding. In Tunisia, program designers paid little attention to the recurrent cost of these efforts. As a result, many of the infrastructure improvements are unlikely to survive. These problems are not unique to this program. Rather they mirror a number of other public works programs carried out worldwide.

PL 480 Food Aid

Food aid has the potential to serve a very useful purpose in policy dialogue and safety net programs; however, it appears to be less flexible than other instruments for promoting policy reform. For example, Cash Transfers and Commodity Import Programs may be more effective instruments in such cases because they are less prone to changes in domestic production and complex consumption relationships and are less politically sensitive.

When food is scarce, food aid can help stabilize prices and keep reforms on track. But when food is abundant, these programs lose their leverage and can even have a disincentive effect on production. Such problems are less serious, however, if the recipient country does not produce the food aid commodity.

In Madagascar, price stabilization reforms using donor-supported buffer stocks was a blunt instrument vulnerable to political manipulation and vagaries of weather and donor supply of food. The program did not appear to provide benefits to the rural poor.

Finally, because USAID is not always the only donor supplying food aid or participating in policy dialogue, donor coordination becomes particularly important. Moreover, enforcing policy conditionality through food aid can pose problems. For example, when local currency proceeds are programmed to cover local costs of USAID project assistance, Missions may have difficulty cutting funding when conditionality goes unmet. Cutting food aid may also be damaging for political reasons, opening USAID to charges of using food as a weapon.

LESSONS LEARNED

The appropriateness of a compensatory program must be determined on a case-by-case basis.

Compensatory and social safety net programs are often very political, which is understandable and not necessarily bad. Political goals, when combined with proper program design and efficient and skillful program management, can smooth the path for the more difficult elements of adjustment programs and reduce popular resistance to painful economic reforms. The

Mali VED program, for example, was used as a carrot to win acceptance of the less popular, but ultimately more cost-effective hiring ceilings. In contrast, in Madagascar, USAID lost control of the program when political considerations overwhelmed economic and equity considerations in the decision-making of the host government. The ultimate question for USAID is whether in a politically charged climate, it can retain sufficient control over local currency uses to support the intended development activities.

When local governments become passive recipients of programs mainly initiated and funded by external donors, probability of program success diminishes.

The Bolivian Government not only initiated the ESF program but continually supported it at the highest levels. The Government also managed to guide the competing claims of donors toward ends articulated by Bolivians. In contrast, the Ghana PAMSCAD program never came across as truly a Ghanaian program. Donors pursued their own agendas with little coordination from the Ghanaian Government.

The Bolivian Government enjoyed a greater amount of popular legitimacy than many governments undertaking adjustment programs, which may partly account for its success in setting up ESF. Until recently, only a few countries in Sub-Sahara Africa enjoyed similar conditions; however, that situation may change. Recent indications suggest that more countries (e.g., Mali, Benin, Zambia) are taking steps toward increasing popular participation.

Governments and donors need to take a hard look at the capability of existing institutions to implement short-run social programs quickly and cost-effectively.

In some countries with sufficient human resources and an adequate management base, creation of a temporary independent implementing organization may be the best option if political and economic considerations demand immediate results. Such a step, however, should be taken only as a last resort.

One of the reasons for the rapid success of the Bolivia ESF program was its existence outside of normal government channels. Although the Chilean Emergency Employment Program operated within existing ministries, it achieved some level of success because of Chile's long experience with social programs. In contrast, the Ghana PAMSCAD program failed. An important reason for its failure was Ghana's inadequate institutional experience in running such programs. Nearly half of PAMSCAD funds were expended on administrative overhead of the Ghanaian Government, and the remaining half experienced serious delays in reaching beneficiaries. In general, however, a new public sector institution should be created only as a last resort and with clear sunset provisions.

A Catch-22 can result when strategies for short-term compensation are not linked with long-run poverty alleviation strategies.

Programs targeted to the poor sometimes have a social stigma attached to them that traps recipients in poverty. For example, the Chile Emergency Employment Program's self-targeting approach marked participants, making their subsequent chances for private hiring difficult. Thus, while participants gained in the short term, their chances of long-term employability may have been reduced.

RECOMMENDATIONS

Determine the appropriateness of compensatory and safety net programs on the basis of the following factors:

- The nature of the adjustment and reform programs pursued in the host country
- The income and resource distribution effects of the reforms on different social groups and across geographic regions
- The financial and human resource capability of the local governments and USAID Missions to carry out the safety net programs
- The political, administrative, and economic feasibility of the proposed program

Use a decision tree and checklist to design appropriate compensatory programs (see figure). The decision tree presented in the study divides program design into three stages: identification of the problem (Stage I), identification of the program (Stage II), and determination of feasibility (Stage III).

Stage I determines which socioeconomic groups are likely to be hurt by economic reform and which groups from among those affected should be helped through compensatory measures. This stage is critical because it can upset the often uncritical assumptions made by donors and host country governments about the likely winners and losers from adjustment. It also forces program designers to think about cause and effect and to identify specific constraints faced by potential program beneficiaries.

Stage II identifies appropriate interventions necessary to redress the adversely affected groups. If the problems are transitory, short-term interventions, such as relief programs, labor-intensive public works, and severance pay, may be the quickest and most cost-effective activities for reaching the target groups. If problems appear more persistent, for example, chronic poverty, a traditional project approach for poverty alleviation is called for. Such interventions focus on increasing the physical and human capital of the poor through sustained efforts in education, health, infrastructure creation, and the like. Sometimes, however, short- and long-term efforts may be combined, for example, in cases where the poor have been particularly hurt because a subsidy has been phased out or a money losing agricultural parastatal has been scaled back in a poor region. In such cases, temporary subsidized food distribution (e.g., infant feeding programs) may be combined with long-term development activities (e.g., educating women about nutrition). Yet USAID needs to exercise caution, because mixing short- and long-term objectives can lead to problems, as the experience with public works projects demonstrates. Determining the type of intervention requires a period of intense dialogue between the host government and USAID informed by the analysis produced during Stage I.

Stage III determines the administrative, political, and economic feasibility of possible intervention. This stage addresses the questions: Does the developing country have the administrative capacity to identify appropriate target groups? Can its government choose the right targeting strategy without running into crippling opposition? Does the country have the institutional capacity and a successful track record in implementing similar programs? and finally, What is the opportunity cost of running such programs given the resource-strapped conditions of most developing countries?

USAID decision-makers must answer similar question about the Mission's capacity. Does the Mission have the human resources necessary to carry out programs that often require highly skilled staff and intensive policy dialogue? Does any part of a program conflict with USAID regulations, such as the regulation prohibiting USAID from participating in programs that rely on a common donor pool for financing.

In general, avoid multisector, multiagency programs; they commonly fail. Consider establishing an independent implementing agency if a program must achieve results quickly and existing government agencies have never successfully implemented a social program. Consider such an approach, however, only if the human and managerial capital is readily available. Such an agency can serve both a multisector and single sector program.

In general, avoid combining short- and long-term objectives in the same program design, because often they are mutually exclusive. If program designers believe that a program lends itself to mixing the two objectives, they should provide convincing explanation in the program design documents.

Choose carefully the job categories for inclusion or exclusion in severance pay programs to avoid reducing social services in critical areas, for example, education. The Mali VED program attracted many teachers, who took advantage of the severance pay and retired. But their absence created a void in education that a country like Mali could ill afford.

Consider lump-sum severance payments for streamlining the public sector. Experience indicates that severance payments not only serve as safety nets for public servants targeted for lay off, they also can provide a cost-effective approach to stimulating small-enterprise development, particularly in poor countries with very large informal sectors.

Incorporate monitoring plans into the design of severance programs to track progress of businesses created over several years to determine elements that contribute to their survival or failure. When donors have funded severance programs, they have tended to view them as "necessary evils" rather than programs with potential for small enterprise development. Consequently, they have paid scant attention to measuring impact or identifying good design *strategies and impact monitoring, especially in light of the importance donors have been placing in recent years on public sector streamlining and privatization.*

This Evaluation Highlights was prepared by Abbe Fessenden and Farah Ebrahimi for the Center for Development Information and Evaluation (CDIE). The Highlights summarizes the findings from two desk studies soon to be published by CDIE. The studies, both by David Kingsbury, are entitled Compensatory Social Programs and Structural Adjustment: A Review of Experience and Programs for Mitigating Adverse Social Impacts During Adjustment: The USAID Experience. They will be available in early 1994 from the DISC, 1611 North Kent Street, Suite 200, Arlington, VA 22209-2111, telephone (703) 351-4006; fax (703) 351-4039.